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C O N F I D E N T I A L JERUSALEM 004587

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NEA FOR FRONT OFFICE; NEA/IPA FOR
WILLIAMS/SHAMPAINE/STEINGER; NSC FOR ABRAMS/DORAN/WATERS;
TREASURY FOR SZUBIN/LOEFFLER/NUGENT/HIRSON

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TAGS: ECON EFIN EIND PGOV PREL KWBG IS

SUBJECT: BARRIERS TO MOVEMENT AND ACCESS OBLIGE HEBRON
BUSINESSMEN TO JOIN EXODUS OF PALESTINIAN INDUSTRY

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

¶1. (SBU) Summary: Hebron-based companies have largely been denied permission to send their goods into Gaza through the Karni/al-Mintar crossing, according to prominent Palestinian businessmen. Passage is sometimes allowed with the payment of exorbitant unofficial fees. Hebron-produced school supplies purchased by UNICEF for this school year have been refused entry for months. Barriers to movement within the West Bank, in some instances, have doubled shipping time and associated costs. Frustrated over blocked access to Gaza, barriers to internal West Bank trade, rising costs and loss of market share, a Hebron-based paper company is making preparations to other Palestinian companies opening production facilities abroad. End Summary.

Targumiya Crossing Need Improvements

¶2. (C) Nafez Hirbawi, Chairman of PalTrade and Chairman/General Manager of the Hebron-based Paper Industries Company, Ltd., told Econoffs and USAIDoff October 16 that the Targumiya crossing with Israel in the southwestern West Bank is open on a regular basis but does not process Palestinian exports efficiently since it is a rudimentary back-to-back operation in an open area divided by concrete blocks. He suggested that the crossing's hours should be extended to reduce delays. Hirbawi asserted that in late August 2006 crossing operators began giving priority to perishable goods and milk products, frequently leaving other cargo waiting three-to-four hours. Hirbawi stated that, with 70-80 percent of his paper company's production going to the Israeli market, efficient and predictable transit through Targumiya is vital to his business. He expressed his concern that when the crossing moves to a location closer to the Green Line later this year, a more restrictive crossing "model" might be adopted at the new site, to the further detriment of Palestinian exports. (Note: An USAID-leased scanner is scheduled for placement at the new crossing when it opens. End Note.)

Insufficient Throughput at Karni/al-Mintar

¶3. (C) Inefficiencies plaguing Targumiya pale in comparison to the serious problems facing Palestinian companies seeking to ship goods to Gaza through Karni/al-Mintar, according to Hirbawi. Citing statistics gathered by PalTrade, Hirbawi

said that, thus far in 2006, the maximum number of truckloads allowed into Gaza on a single day was 230 and the lowest 47. The maximum number of truckloads permitted to leave Gaza was 125. Karni/al-Mintar has been open fully or partially for only 116 days so far this year, according to Hirbawi. (Note: PalTrade has maintained a physical presence at Karni/al-Mintar since August 2005 to monitor and collect statistics terminal operations. End note.) Hirbawi stated that his paper company has the capacity to ship a total of 2,000 tons of goods to Gaza during its high sales season, from May to October. In 2006, however, he managed to move only 25 percent of that amount (500 tons - 25 truckloads).

Scheduling Benefits Israeli Goods

14. (C) According to PalTrade statistics, 80 percent of the goods allowed into Gaza in 2006 have been of Israeli origin or foreign products transiting Israel. West Bank-origin goods comprised a mere 20 percent of Gazan imports. In September 2006, the Palestinian share dropped to five percent. Hirbawi said that a Hebron potato chip manufacturer who had previously enjoyed a 30 percent share of the Gazan market has stopped attempting to export to Gaza because of scheduling difficulties and transportation costs (see below).

Hirbawi added that a pasta company he owns suffered a similar fate. Israeli producers of the same products, however, continue to have access to Gaza. Hirbawi advised that his paper company had committed to delivering by July/August 2006 an order from UNICEF for 320 tons of school supplies for Gaza. After repeatedly being denied permission to ship the goods through Karni/al-Mintar, Hirbawi reduced the price of the goods in return for UNICEF taking over responsibility for delivery. UNICEF, however, has had no

better luck and now, well after the start of the school year, is paying for the supplies to be stored in a warehouse at Ashdod.

You Must Pay to Play

15. (C) Although official fees for transiting Karni/al-Mintar are NIS 270 (USD 64) for a standard-size truckload and NIS 500 (USD 118) for a trailer, the "normal price" has reached NIS 2,500 (USD 588), according to Hirbawi. He said that he managed to get two truckloads through earlier this year at that price. After his customers in Gaza applied pressure on the Palestinian side in August 2006, an agreement was reached with the Israelis at the crossing to allow 100 truckloads in. The Israeli coordination office, however, continues to deny the necessary permission to schedule these truckloads for delivery. Hirbawi asserted that Israeli drivers had recently approached his staff demanding NIS 6,000-7,000 (USD 1,412-USD 1,647) for each truck. Hirbawi explained that Israeli drivers of Israeli-plated vehicles serve as the facilitators for "the two mafias" (Israeli and Palestinian) at Karni/al-Mintar, demanding and receiving exorbitant payments to ensure access to Gaza. Hirbawi professed ignorance as to how these funds are divided up. He stated that a Hebron food company recently paid NIS 25,000 (USD 5,582) for one truckload of food prepared especially for the month of Ramadan. Hirbawi urged the establishment of a transparent scheduling and fee system involving shippers, not drivers.

West Bank Internal Trade Stymied

16. (C) Hirbawi said that trade within the West Bank has also been adversely affected by increased restrictions on movement. Shipments from his companies in Hebron to the northern West Bank city of Jenin, for example, could once be delivered in about two hours. Now a one-way journey takes 5 hours. According to Hirbawi, people and goods heading north from the Hebron municipality -- population 550,000 -- must

all be funneled through the single Halhul-Sa'ir checkpoint. Hirbawi estimated that his transportation costs have doubled and, as a consequence, he is shipping less to Jenin and other areas in the northern West Bank. Hirbawi's brother, Majed Hirbawi, general manager of Hirbawi Investment and International Trade, stated that he used to travel on business from Hebron to Jenin once a week but no longer does so due to the ten hours required for travel.

Time to Go

¶7. (C) After noting that he established his first company in 1970, Hirbawi said that he had never thought about leaving the West Bank, until now. Costs associated with restrictions on access and movement are threatening his businesses and the livelihood of the 250 people he employs. Paper supply sales in September 2006, for example, were 40 percent lower than in September 2005 because of market access restrictions and the decline in the Palestinian population's purchasing power. Hirbawi stated that he is making arrangements to open production facilities abroad, most probably Jordan, where his business might actually expand given easier access to Arab regional markets. He asserted that his situation is not unlike that of most West Bank and Gaza manufacturers, many of whom are also contemplating a move.

WALLES